

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

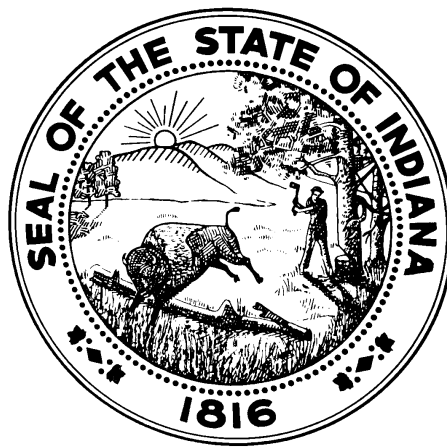
EXAMINATION REPORT

OF

TOWN OF PALMYRA

HARRISON COUNTY, INDIANA

January 1, 2006 to December 31, 2007



FILED
07/08/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Virginia Dale	01-01-04 to 12-31-11
President of the Town Council	Virginia L. Kirkham Alvin M. Brown	01-01-06 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Utilities	Randy Trett	01-01-06 to 12-31-08
Utility Office Manager	Frank H. Melton	01-01-06 to 12-31-08



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE TOWN OF PALMYRA, HARRISON COUNTY, INDIANA

We have examined the financial information presented herein of the Town of Palmyra (Town), for the period of January 1, 2006 to December 31, 2007. The Town's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the Town for the years ended December 31, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. It has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 10, 2008

TOWN OF PALMYRA
SCHEDULES OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Years Ended December 31, 2006 And 2007

	Cash and Investments 01-01-06	Receipts	Disbursements	Cash and Investments 12-31-06
Governmental Funds:				
General	\$ 37	\$ 52,185	\$ 42,294	\$ 9,928
Motor Vehicle Highway	35,366	23,852	18,542	40,676
Local Road and Street	18,189	4,709	5,000	17,898
Law Enforcement Continuing Education	789	30	-	819
Trash	8,794	33,307	30,978	11,123
Riverboat	101,601	124,019	90,428	135,192
Cumulative Capital Improvement	17,191	2,315	2,900	16,606
Economic Development Income Tax	12,628	6,821	12	19,437
Storm Water Project	37,244	98,463	135,707	-
Proprietary Funds:				
Water Utility - Operating	77,094	701,987	678,472	100,609
Water Utility - Bond and Interest	110,969	162,651	157,800	115,820
Water Utility - Debt Service Reserve	177,577	16,500	28,694	165,383
Water Utility - Customer Deposit	11,892	5,900	2,550	15,242
Water Utility - Construction	-	82,948	54,265	28,683
Wastewater Utility - Operating	6,056	165,230	159,888	11,398
Wastewater Utility - Bond and Interest	67,133	52,933	53,608	66,458
Wastewater Utility - Debt Service Reserve	9,172	24,425	-	33,597
Wastewater Utility - Maintenance Reserve	-	1,024	-	1,024
Fiduciary Fund:				
Payroll	5,819	82,435	80,669	7,585
Totals	<u>\$ 697,551</u>	<u>\$ 1,641,734</u>	<u>\$ 1,541,807</u>	<u>\$ 797,478</u>

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 9,928	\$ 50,516	\$ 47,887	\$ 12,557
Motor Vehicle Highway	40,676	23,138	7,575	56,239
Local Road and Street	17,898	4,678	6,009	16,567
Law Enforcement Continuing Education	819	70	53	836
Trash	11,123	40,086	37,183	14,026
Riverboat	135,192	113,426	29,944	218,674
Cumulative Capital Improvement	16,606	2,274	5,598	13,282
Economic Development Income Tax	19,437	5,914	481	24,870
Proprietary Funds:				
Water Utility - Operating	100,609	728,265	746,909	81,965
Water Utility - Bond and Interest	115,820	177,752	144,002	149,570
Water Utility - Debt Service Reserve	165,383	-	-	165,383
Water Utility - Customer Deposit	15,242	5,850	5,850	15,242
Water Utility - Construction	28,683	490,089	444,267	74,505
Wastewater Utility - Operating	11,398	172,377	179,477	4,298
Wastewater Utility - Bond and Interest	66,458	73,049	54,058	85,449
Wastewater Utility - Debt Service Reserve	33,597	-	-	33,597
Wastewater Utility - Maintenance Reserve	1,024	1,683	-	2,707
Fiduciary Fund:				
Payroll	7,585	90,001	90,575	7,011
Totals	<u>\$ 797,478</u>	<u>\$ 1,979,168</u>	<u>\$ 1,799,868</u>	<u>\$ 976,778</u>

The accompanying notes are an integral part of the financial information.

TOWN OF PALMYRA
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The Town was established under the laws of the State of Indiana. The Town provides the following services: public safety (police), highways and streets, culture and recreation, public improvements, general administrative services, water and wastewater.

Note 2. Fund Accounting

The Town uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the Town in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

TOWN OF PALMYRA
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type Activities:		
Water Utility		
Revenue bonds:		
1970 Water improvement revenue bonds	\$ 52,000	\$ 19,600
1972 Water improvement revenue bonds	35,000	9,750
Notes and loans payable	<u>1,423,000</u>	<u>114,113</u>
Total Water Utility	<u>1,510,000</u>	<u>143,463</u>
Wastewater Utility		
Revenue bonds:		
1991 Wastewater improvement revenue bonds	74,000	23,691
Notes and loans payable	<u>537,400</u>	<u>32,428</u>
Total Wastewater Utility	<u>611,400</u>	<u>56,119</u>
Total business-type activities debt:	<u><u>\$ 2,121,400</u></u>	<u><u>\$ 199,582</u></u>

TOWN OF PALMYRA
EXAMINATION RESULTS AND COMMENTS

SUPPORTING DOCUMENTATION (Town of Palmyra, Water and Wastewater Utility)

Payments were observed which did not contain adequate supporting documentation, such as receipts, invoices, and other public records. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CREDIT CARDS (Town of Palmyra, Water and Wastewater Utility)

The Town is using credit cards to purchase items without an approved credit card policy.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the Board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PALMYRA
EXAMINATION RESULTS AND COMMENTS
(Continued)

PROMOTIONAL EXPENSES (Town of Palmyra)

During 2006 and 2007, the Town spent \$183.00 and \$401.70, respectively from the Town's General Fund for items the Town considered as promotional expenses. These items included: \$186.75 for Christmas luncheons held for Town employees, \$119.95 for funeral arrangements, \$243.00 for Breakfast at the Brickyard tickets attended by a Town Council member and spouse, and \$35.00 for other meals. The Town has appropriated funds from the General Fund for promotional expenses, but has not properly established by ordinance the specific type of promotional expenses which can be paid from money's appropriated for such purposes.

The March 2004 Cities and Towns Bulletin states: ". . . City and town councils are authorized to budget and appropriate funds from the general fund of the city, or town, to pay the expenses of or to reimburse city officials or town officials as the case may be, for expenses incurred in promoting the best interest of the city or town. Such expenses may include, but not necessarily be limited to, rental of meeting places, meals, decorations, memorabilia, awards, expenses incurred in promoting industrial, commercial, and residential development, expenses incurred in developing relations with other units of government and any other expenses of a civic or governmental nature deemed by the mayor or the town council to be in the interest of the city or town." Each city and town should establish, by ordinance, the parameters for such appropriations and expenditures. Such ordinance should list the specific types of promotional expenses which can be paid from moneys appropriated for such purposes.

EXPENSE REIMBURSEMENT ITEMIZATION (Town of Palmyra, Water and Wastewater Utility)

Records presented for examination included claims for reimbursement totaling \$174.92 for meals for more than one individual. Detailed documentation was not attached to the information presented for reimbursement which would enable a determination that all expenses were for employees conducting governmental business.

All claims, invoices, receipts, accounts payable vouchers, including those presented to the governing body for approval in accordance with IC 5-11-10, should contain adequate detailed documentation. All claims, invoices, receipts, and accounts payable vouchers regarding reimbursement for meals and expenses for individuals must have specific detailed information of the names of all individuals for whom amounts are claimed, including the nature, name and purpose of the business meeting, to enable the governing body to authorize payment. Payments which do not have proper itemization showing the business nature of the claim may be the personal obligation of the responsible official, employee or other person for whom the claim is made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL ERRORS AND DEFICIENCIES (Town of Palmyra)

During our review of payroll records we noted the following exceptions:

1. One Town employee received compensation in excess of the salary approved by the Town Council.

In order to correct the deficiency noted above, the Town Council has authorized that amended salary ordinances be drawn up for the periods effected. The amended salary ordinances are to be presented and approved at the July, 2008 Town Council meeting.

TOWN OF PALMYRA
EXAMINATION RESULTS AND COMMENTS
(Continued)

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

2. Some employee time and attendance records were not maintained and presented for examination.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

3. Payments were made to a Town Council member without payroll deductions for taxes.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Each governmental unit is responsible for compliance with all rules, regulations, guidelines, and directives of the Internal Revenue Service and the Indiana Department of Revenue. All questions concerning taxes should be directed to these agencies. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS (Water and Wastewater Utilities)

There was no detail of capital assets for the Utilities presented for the examination period.

Every governmental unit should have a complete inventory of all capital assets owned which reflect their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PENALTIES, INTEREST AND OTHER CHARGES (Water Utility)

Penalties and interest totaling \$308.99 were paid to the Indiana Department of Revenue on April 17, 2006, for failure to timely remit sales tax for the period February 2006.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PALMYRA
EXAMINATION RESULTS AND COMMENTS
(Continued)

UTILITY RECEIPTS TAX (Water Utility)

On May 2, 2007, the Indiana Department of Revenue performed an audit of the Town's Water Utility for the periods ending December 31, 2003, 2004, 2005, and 2006. The results of their audit determined that the Utility had not filed their annual Utility Receipts Tax Returns and had not made quarterly Utility Receipts Tax payments for those periods. Additionally, the Indiana Department of Revenue determined that the Town owed Utility Receipts Tax in the amount \$8,997.25, \$9,760.80, \$9,795.05 and \$9,331.95 for the years 2003, 2004, 2005, and 2006, respectively. The amount calculated did not include the 10% penalty and interest that was subsequently assessed for failure to remit these taxes timely.

The Town, subsequently, filed a written protest of the audit results and requested an administrative hearing with the Indiana Department of Revenue. The Town protested on the grounds that its Water Utility is a nonprofit corporation formed to provide water to municipal residents and that it is not subject to the Utility Receipts Tax. An administrative hearing was held on March 3, 2008. In a "Letter of Findings" issued by the Indiana Department of Revenue on March 6, 2008, the Town's protest was denied. The "Letter of Findings" stated the Town is subject to the Utility Receipts Tax.

The Town appealed the "Letter of Findings" and requested a rehearing on the matter and requested that the 10% penalty that had been assessed be waived. A rehearing was, subsequently, granted and held on April 28, 2008. The Indiana Department of Revenue re-issued its "Letter of Findings" on April 25, 2008, and upheld their position that the Town is subject to the Utility Receipts Tax. The Letter of Findings did rule in favor of the Town's request to waive the 10% penalty that had been assessed.

On June 5, 2008, the Town Council decided not to pursue any further appeals of the rulings made by the Indiana Department of Revenue. The Clerk-Treasurer was instructed to pay all outstanding Utility Receipts Tax owed including all interest that had been assessed. Additionally, the Clerk-Treasurer was instructed to remit Utility Receipts Tax owed for the period ending December 2007, which had not been part of the audit performed by the Indiana Department of Revenue. The Clerk-Treasurer remitted the Utility Receipts Tax owed for 2003, 2004, 2005, and 2006, including interest on June 12, 2008. Additionally, the Clerk-Treasurer remitted Utility Receipts Tax owed for 2007, including interest on June 13, 2008. A summary of these payments follows:

Description	2003	2004	2005	2006	2007	Totals
Utility receipts tax	\$ 8,997.25	\$ 9,760.80	\$ 9,795.05	\$ 9,331.95	\$ 10,000.91	\$ 47,885.96
Interest	1,581.40	1,354.02	1,034.59	585.04	500.05	5,055.10
Totals	<u>\$ 10,578.65</u>	<u>\$ 11,114.82</u>	<u>\$ 10,829.64</u>	<u>\$ 9,916.99</u>	<u>\$ 10,500.96</u>	<u>\$ 52,941.06</u>

Generally, retail receipts from all utility services consumed within Indiana are subject to the utility receipts tax regardless of the point of generation or transmission across state lines. Receipts from the provision of mobile telecommunication service are subject to utility receipts tax to the extent that the receipts are sourced to Indiana pursuant to IC 6-8.1-15. However, gross receipts received by a political subdivision for sewage and sewage service are not subject to the tax. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

TOWN OF PALMYRA
EXAMINATION RESULTS AND COMMENTS
(Continued)

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WATER ACCOUNTS (Water Utility)

The Town has established a shutoff policy for delinquent water customers. The policy states: "All accounts exceeding 30 days in arrears will be disconnected on/after the 18th of the next month following the due date." We noted numerous accounts that are over 90 days past due in which the Utility has not disconnected the water service as required by the ordinance.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS (Wastewater Utility)

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.
- (c) The officer shall record a copy of each list or each individual instrument with the county recorder . . ."

"(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

TOWN OF PALMYRA
EXAMINATION RESULTS AND COMMENTS
(Continued)

BOND ORDINANCE (Wastewater Utility)

Revenue Bond Ordinance 2-2002, which governs the 2002 Rural Development Loan requires monthly transfers to be made to the Bond and Interest Account so that sufficient amounts are available to pay loan principal and interest payments when they come due and also that certain amounts be paid into a Debt Service Reserve Account. Sufficient funds are available in the Bond and Interest Account at December 31, 2007, to meet the requirements, but the Debt Service Reserve Fund was underfunded by \$6,604.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

TOWN OF PALMYRA
EXIT CONFERENCE

The contents of this report were discussed on June 10, 2008, with Virginia Dale, Clerk-Treasurer; and Alvin M. Brown, President of the Town Council.